

Message Text

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TO USMISSION GENEVA PRIORITY

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FOR AMBASSADOR MCDONALD FROM AMBASSADOR WOLFF

E.O. 11652: N/A

TAGS: MTN

SUBJECT: TPSC RECOMMENDATIONS ON CANADIAN BILATERALS
REF: GENEVA 08311

1. WE APPRECIATE YOUR CONCERN WITH RESPECT TO THE
AMBITIOUS U.S. NEGOTIATING OBJECTIVES VIS-A-VIS CANADA
CONTAINED IN TPSC 78-65. HOWEVER, WE CONTINUE TO BELIEVE
IT REPRESENTS A GOOD STARTING POINT FOR ARRIVING AT A
FINAL ACCEPTABLE AGREEMENT WITH CANADA AND IT SHOULD BE
USED AS THE BASIS FOR THE JUNE 7 BILATERAL.

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2. THE U.S. TARIFF OFFER TO CANADA, BOTH QUANTITATIVELY
AND QUALITATIVELY, IS UNPARALLELED IN THE HISTORY OF U.S.-
CANADIAN TRADE NEGOTIATIONS. THE OVERALL DEPTH OF CUT ON
DUTIABLE INDUSTRIAL PRODUCTS IMPORTED FROM CANADA IS 61
PERCENT. THE RESULTING AVERAGE U.S. RATE OF DUTY ON THESE
IMPORTS WOULD BE 2.0 PERCENT. IN CONTRAST, EVEN IF ALL

U.S. REQUESTS IN TPSC 78-65 WERE GRANTED, DUTIABLE INDUSTRIAL IMPORTS FROM THE U.S. WOULD FACE AN AVERAGE CANADIAN DUTY OF 4.7 PERCENT. MORE SIGNIFICANTLY, THE U.S. OFFER IS EXTREMELY RESPONSIVE IN PRODUCT AREAS EXPLICITLY REQUESTED BY CANADA. WE ARE OFFERING CUTS OF OVER 90 PERCENT ON THE PRODUCTS COVERED BY THE CANADIAN REQUEST LISTS, 78 PERCENT ON NON-FERROUS PRODUCTS, 72 PERCENT ON

LUMBER AND WOOD PRODUCTS, AND 79 PERCENT ON PAPER PRODUCTS. EXCLUDING SLAB ZINC, U.S. IMPORTS IN ALL THESE AREAS TOTALLED 2.6 BILLION DOLLARS IN 1976. THESE OFFERS CANNOT BE MAINTAINED WITHOUT VERY MARKED IMPROVEMENT IN THE CANADIAN OFFERS.

3. WE AGREE WITH MTN DEL THAT THERE SHOULD BE NO COMPARABILITY IN THE U.S. POSITION VIS-A-VIS CANADA AND THE U.S. POSITION VIS-A-VIS JAPAN. CONSEQUENTLY, OUR POSTURE TOWARD CANADA IS BASED ON OUR UNIQUE NEGOTIATING OBJECTIVES WITH THAT COUNTRY. THESE OBJECTIVES ARE NOT SHARED BY THE EC, NORDICS, SWISS, AND OTHERS WHOSE TRADE WITH CANADA IS OF AN ENTIRELY DIFFERENT MAGNITUDE OF IMPORTANCE.

4. WE ALSO RECOGNIZE THE AGREEMENT ON GATT BOUND RATES REACHED IN GROUP TARIFFS IN MARCH 1975. HOWEVER, THE PRESENT CANADIAN OFFERS CANNOT BE GIVEN FULL CREDIT, LIMITED OFFICIAL USE

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EVEN FROM GATT BOUND RATES, BECAUSE IN MANY CASES THEY ARE QUALIFIED BY "MADE IN CANADA" PROVISIONS. CANADIAN OFFERS ARE FURTHER COMPLICATED BECAUSE THEY ARE BASED UPON A CANADIAN-DEvised FORMULA UNDER WHICH TARIFF CUTS BY CANADA ARE SIGNIFICANTLY LESS THAN TARIFF CUTS BY THE U.S. ON THE SAME RATE, E.G., CANADA CUTS A 20 PERCENT RATE TO 11.3 PERCENT WHILE THE U.S. CUTS A 20 PERCENT RATE TO 8.2 PERCENT. BECAUSE GROUP TARIFFS NEVER AGREED ON A FORMULA OR ON MOST OTHER ASPECTS OF A TARIFF NEGOTIATING PLAN, WE QUESTION THE RELEVANCE OF AGREEMENT ONLY ON THE BOUND RATE ASPECT OF THE BASE RATE ISSUE. IN ANY EVENT, WE MUST NEGOTIATE A SETTLEMENT WITH CANADA THAT PROVIDES ADEQUATE RECIPROCITY AND, THEREFORE, IS DEFENSIBLE. CONGRESSIONAL INTENT ON THIS POINT IS CLEAR, PARTICULARLY IN RELATION TO CANADA.

5. WE FIND REGRETTABLE MTN DEL'S USE OF THE FIGURE OF 41 PERCENT OVERALL DEPTH OF CANADIAN CUT IN BILATERAL DISCUSSIONS. NUMBERS INFORMALLY PROVIDED TO HAMMARSLAG WERE GIVEN WITH A SPECIFIC CAVEAT THAT THEY WERE PRELIMINARY, UNCLEARED, AND NOT TO BE GIVEN TO THE CANADIANS. HOWEVER, WE ARE LESS CONCERNED WITH DEPTH OF CUT, I.E.,

27 PERCENT VERSUS 41 PERCENT, THAN WITH THE QUALITY OF THE CANADIAN OFFER. FOR THIS REASON WE DID NOT INCLUDE DEPTH OF CUT CALCULATIONS IN THE LIST OF REQUESTS TO BE GIVEN TO THEM. THESE NUMBERS NEED NOT BE EMPHASIZED IN DISCUSSIONS WITH CANADA AND NEED NOT BE SPECIFICALLY CITED, IF THIS WOULD BE HELPFUL.

6. WITH RESPECT TO THE CANADIAN OFFER, A PRIMARY CONCERN IS THE ELIMINATION OF "MADE IN CANADA" PROVISIONS IN THE CANADIAN TARIFF SCHEDULE. WE DO NOT BELIEVE IT WOULD BE AN ACCEPTABLE OUTCOME OF THE MTN FOR THE CANADIANS TO RETAIN A MECHANISM PERMITTING THEM TO RAISE TARIFF RATES ALMOST AT WILL WITHOUT COMPENSATION. THESE PROVISIONS CONSTITUTE AN ESCAPE CLAUSE, PAR EXCELLENCE. YOU SHOULD LIMITED OFFICIAL USE

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BE AWARE THAT U.S. INTERESTS BENEFITTING FROM ASP ARE PRESSING US TO REPLACE IT WITH A U.S. VERSION OF "MADE IN CANADA" AND, IN THIS CONNECTION, HAVE CITED THE CONTINUANCE OF THESE CANADIAN PROVISIONS. SO FAR, WE HAVE RESISTED SUCH PROPOSALS.

7. TPSC 78-65 SUGGESTS SEVERAL SOLUTIONS AND APPROACHES TO THE NEGOTIATION BOTH OF "MADE IN CANADA" PROVISIONS AND THE MACHINERY PROGRAM. THESE APPROACHES PROVIDE CONSIDERABLE NEGOTIATING FLEXIBILITY AND SHOULD BE EXPLORED WITH THE CANADIAN DEL.

8. WITH REGARD TO THE MACHINERY PROGRAM, TARIFF LINE 42700, DEL SHOULD UNDERSTAND THAT WE ARE NOT REQUESTING A RATE OF ONE PERCENT ON THE RESIDUAL PORTION OF MACHINES, N. O. P. FULL EXPLANATION WILL BE SENT SEPTTEL.

9. BOTH THE REQUEST RATE ON MACHINERY IN TARIFF LINE 42700, AS WELL AS THE CREDIT TO BE GIVEN FOR REDUCTIONS IS NEGOTIABLE. (WE ARE UNABLE TO UNDERSTAND, HOWEVER, WHY A 7.5 PERCENT RATE OFFER WAS SUGGESTED TO CANADA AS AN APPROPRIATE ONE (GENEVA 7505)). SUCH FLEXIBILITY ALSO APPLIES TO THE "MADE IN CANADA" ITEMS. FURTHERMORE, THE CREDIT TO BE GIVEN FOR THE BINDING OF DUTY-FREE ITEMS IS ALSO NEGOTIABLE. WE BELIEVE THAT WITH THIS KIND OF INITIAL FLEXIBILITY AND WITH ADDITIONAL INSTRUCTIONS, IF NECESSARY, AN ACCOMMODATION CAN BE REACHED WITH RESPECT TO DEPTH OF CUT AND AN ACCEPTABLE DEAL CAN BE NEGOTIATED.

10. WE ARE ALWAYS WILLING TO RECONSIDER NEGOTIATING INSTRUCTIONS AFTER RECEIVING COMMENTS OR PROPOSALS OF MTN DEL. IN FACT, WE WELCOME THEM AND WILL ALWAYS RESPOND TO THEM AS RAPIDLY AS POSSIBLE. HOWEVER, IN THIS AND FUTURE LIMITED OFFICIAL USE

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INSTANCES, WHILE YOU MUST HAVE LATITUDE TO EXPLORE NEGOTIATING POSSIBILITIES WITH OTHER DELEGATIONS, YOU SHOULD NOT PROCEED WITH NEGOTIATIONS ON THE BASIS OF MTN DEL PROPOSALS ON THE ASSUMPTION THAT SUCH PROPOSALS WILL BE APPROVED AS USG POSITIONS (PARA. 8, REFTTEL).

11. COMMENT: WITH REGARD TO THE MACHINERY PROGRAM AND "MADE IN CANADA" PROVISIONS, CANADIANS ARE IN ESSENCE OFFERING ONLY A CEILING BINDING ON GOODS NOW ENTERING DUTY FREE. THIS DESERVES SOME CREDIT, BUT JUST AS WITH U.S. IMPORTS SUBJECT TO DUTY SUSPENSIONS, NO ONE WOULD, AS A PRACTICAL MATTER, GIVE US FULL CREDIT. THERE IS A SECOND PROBLEM, WHICH IS SIMILAR TO THAT OF JAPAN, AND THIS IS GRADUATION. IT WILL BE INCREASINGLY DIFFICULT TO PROVIDE U.S. CONCESSIONS TO GET CANADA TO LIBERALIZE. WE HAVE DONE SO IN THIS NEGOTIATION. CANADA MUST NOW FULLY RECIPROCATE. CONGRESS WILL BE WATCHING CANADIAN TARIFF LEVEL MORE CLOSELY THAN THAT OF ANY OTHER COUNTRY. IT WILL BE HARD ENOUGH TO DEFEND THE POSITION OUTLINED ABOVE. CHRISTOPHER

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